



STATE TAX COMMISSION OF MISSOURI ASSESSOR MANUAL

CHAPTER:

ORIGINAL ASSESSMENT

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3.0 ORIGINAL ASSESSMENT

All other departments within the State Tax Commission are advisory, supervisory, administrative, etc. The original assessment department is the sole department which is actually charged with preparing the assessment of property, specifically, railroad and utility property.

1. Missouri Statutes

The statutes of the State of Missouri provide for the taxation of railroad and public utility companies in Chapters 151 and 153 of the Revised Statutes of Missouri (RSMo)

2. Fair Market Value

It is our obligation at the State Tax Commission to appraise and assess railroad and public utility property at fair market value.

The basic theory of property taxation is that property should be taxed relative to its value, presumably determined by what it would sell for in an open market. The comparable sales concept works well for determining the value of traditional real estate, but is rarely used for determining the value of railroads and public utilities. The appraiser must utilize various methods and techniques to fairly estimate what the utility's property would sell for if it were offered for sale on the open market, by a willing buyer and willing seller, both of whom are knowledgeable, but are not forced to buy or sell.

There are two methods of arriving at fair market value. The first, known as the summation method, inventories each item of property and values it separately regardless of the cooperative effect it may have with the utility's other property. This generally produces values that do not reflect the value of the integrated property taken as an operating unit. The fallacy in this method is that without looking at how the individual piece of property contributes to the whole unit, the individual piece of property may be more valuable or less valuable to the unit than if valued independently of the unit. Because of the limitations of the summation method, the unit method

(or "unit rule") has been implemented to determine fair market value.

3. Unit Value

The unit concept means that a collection of tangible assets functioning as an operating unit are to be appraised as a whole without reference to separate value of the component parts. Value accrues to the assets because of their ability to generate benefits as an operating unit.

In 1904, the Wisconsin Supreme Court presented logic behind a unit appraisal when it said:

“The separate value of the parts in the aggregate would not necessarily approximate to or be any legitimate measure of the value of all the parts, viewed as one complete machine so to speak. The plant in its parts as realty and personalty according to the character thereof, irrespective of the combination of all into one entire thing, might be of little value, and probably would be, as compared to what they would represent in the new form, produced by the union of many parts into one. The great value is produced by the combination of parts into one complete working machine, adapted in a high degree to the service of man.”¹

The National Tax Association of Tax Administrators' Committee on Unit Valuation stated why a unit appraisal should be used:

“A unit appraisal is superior to summation appraisal ... Not only because it produces a result that is closer to the true value of the property as a whole but because it produces that result by resorting to more reliable and more readily available evidence of value than those that would be used for a summation appraisal.”²

Therefore, the overriding concept in the valuation of utility and railroad property for ad valorem tax purposes is directed toward the unit value concept.

¹ Washburn v. Washburn Waterworks Co., 120 Wis. 575, 585, 98 N.W. 539 (1904)

² Appraisal of Railroad and Other Public Utility Property for Ad Valorem Tax Purpose, Report of the Committee on Unit Valuation, National Association of Tax Administrators (1954)

Valuation of utilities and railroads is complicated by the fact that these companies are affected by market forces of supply and demand as well as regulated by government commissions. As a result, basic appraisal principles and procedures may require adaptation to fit the condition of governmental regulation. This factor must be considered throughout the appraisal process.

Consistent with appraisal theory, to arrive at a unit value, three approaches to value are utilized. They are the **cost approach**, the **market approach** and the **income approach**. Utilizing more than one method provides a better indication of value and provides a "**check**" on each of the other methods.

4. Correlation

Finally, after the three approaches to value have been calculated, the next step is the correlation process. In this step of the appraisal process, the strengths and weaknesses of each approach must be weighed and analyzed. The final value is a judgment decision by the appraiser based on knowledge of the facts. The appraiser should not assign a specific weight to be used for each approach, nor simply average the approaches, but should place the most emphasis on the approach or approaches which the appraiser has the most confidence while relying on the other approaches for support.

5. Allocation

After a fair market value has been correlated, the next step is to allocate the portion of the market value which is applicable to the assessing taxing district (i.e., Missouri). This is many times, a difficult and rather subjective task. There are many allocation elements which can be derived. We have utilized a process where we combine quantity and use/value factors to arrive at a Missouri allocation factor.

For reference to the allocation procedure for the various industries, please refer to the State Tax Commission rules on allocation of unit value (12 CSR 30-2.016)

After the allocation to the State of Missouri, the locally assessed properties are deducted to arrive at

the distributable utility or railroad property.

Locally Assessed Property: Detailed information about locally assessed properties can be found in 12 CSR 30- 2.015.

The local assessor is responsible for the assessment of real and personal property of water companies, gas distribution companies, cable television companies and rural electric cooperatives. For the companies deemed to be state assessed, the local assessor is also responsible for local assessment of certain properties of these companies. These properties include:

Railroad Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Office buildings, warehouses
- Roundhouses, workshops
- Land and buildings not assessed as distributable
- Communication equipment not used in the movement of passengers and freight

Telecommunication Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Office buildings and land
- Land held for future use
- Buildings used predominantly to house local property and land
- Workshops, warehouses and land
- Work equipment and other general equipment

Pipeline Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Land held for future use
- Communication equipment not used for control of transportation of gas or liquid products
- Workshops, office buildings, warehouses, storage tanks, loading and unloading facilities
- Land associated with other locally assessed property

Electric Companies:

- Motor vehicles
- Construction-work-in-progress
- Materials and supplies
- Office furniture, office equipment, office fixtures
- Coal piles, nuclear fuel
- Land held for future use
- Workshops, warehouses, office buildings and generating plant structures
- Communication equipment not used for control of generation and distribution of power
- Roads, railroads and bridges
- Reservoirs, dams and waterways
- Land associated with other locally assessed property and all generating plant land

To assess these properties, the local assessor should use the State Tax Commissions' Form 30, Schedules 14, 15, 16 and 17. *The companies are to complete their information and return it to the local assessor by April 1st of the tax year (151.110).* By April 20 the assessor must certify the true market value and assessment of all locally assessed property to the company, the county clerk and the State Tax Commission. The assessor should use the applicable statutory assessment rate for any locally assessed property.

6. Apportionment

Pursuant to RSMO Chapter 151.080, the State Tax Commission shall apportion the aggregate value of all distributable property to each county, municipal township, city or incorporated town, special road districts, library districts, hospital districts, metropolitan zoological park and museum districts, public water supply, fire protection and sewer districts according to the ratio which the number of miles in these counties and districts bear to the whole length in the state.

3.1 AIRCRAFT

Pursuant to Chapter 155, the State Tax Commission is responsible for determining the assessed value of aircraft owned by airline companies and may determine the assessed value of aircraft more than 3,000 pounds maximum certificated gross take-off weight. As with all property, the assessment date is January 1. Aircraft that falls below the weight limit is valued and assessed at the local level.

The State Tax Commission utilizes various publications to arrive at the market value for the airline's aircraft. These publications include:

- Airliner Price Guide
- Aircraft Bluebook-Price Digest

1. Each airline reports their aircraft that serves Missouri and the State Tax Commission then determines the market value of their fleets. Each type of aircraft is valued and then all of the aircraft values are summed to arrive at the total market value of the fleet.

After the State Tax Commission determines the market value of the airline's fleets serving Missouri, allocation factors for the state must be determined. The allocation factor for a fleet's market value is based on the prior year's ratio of actual miles flown within the state to the total mileage of the aircraft. An allocation factor is then applied to each fleet's market value. The allocated market values of all fleets are summed to determine Total Missouri Allocated Market Value.

An assessment level of 33 1/3% for personal property is then applied to the Total Missouri Allocated Market Value for the aircraft to arrive at the assessed valuation for the state. The assessed value is then apportioned throughout the state on the basis of arrivals and departures within each county. The assessed values by county are certified to the respective counties in the state.

2. The State Tax Commission may also assess the valuation of aircraft fully equipped for flight and of more than 3,000 pounds maximum certified gross take-off weight (“commercial aircraft”). The owner of such aircraft, upon the return of the personal property list, must notify the county assessor that they are making a claim of “commercial aircraft”. The information necessary to assess these aircraft must be collected from the taxpayer by the assessor. This information shall be provided to the State Tax Commission by May 1. The value placed on these aircraft by the State Tax Commission is allocated to the State of Missouri based on the prior year’s ratio of actual miles flown within the state to the total mileage of the aircraft. The assessed value is certified to the respective county. Any taxpayer disagreeing with the assessment may appeal directly to the State Tax Commission by August 15 of the tax year without first appealing to the local Board of Equalization.

3.2 PRIVATE CAR COMPANIES

A private car company owns and/or leases rolling stock and does not own, control or lease track or trackage rights. This rolling stock (railcars) is the property which is subject to the ad valorem tax.

Private car companies’ assessed values are certified to the Missouri Department of Revenue for billing and central collection. The taxes are collected by the Director of Revenue, less one percent for the cost of collection which is deposited in the state’s general revenue fund and six-tenths of one percent of the fund is transferred to the blind pension fund. The remaining funds are apportioned to the counties in the state and placed in the “County Private Car Tax Trust Fund”. “The apportionment is based upon the ratio of the total track mileage of railroads which transport private car traffic within each county to the aggregate total of the state

The county upon receipt of the taxes from the director apportions seventy percent of the revenues received to the county’s school districts using the same basis of distribution as used in distributing

receipts from the average school tax rate for that year, and the remaining thirty percent to the county general revenue fund.

1. Valuation and Assessment

According to Section 137.022, RSMo, "the equipment owned by said companies known as **"flanged wheel equipment"** shall be assessed by the state tax commission and shall be taxed in the manner of railroads, as provided in chapter 151, RSMo." Presently, the State Tax Commission determines the market value of the railroad's property based on the Unit Rule. This approach utilizes the three indicators of value, which are cost, market and income. Regarding the private car companies, the cost approach is the only indicator utilized due to the limited information provided and the number of companies operating within the state.

As with the railroads, the original cost at acquisition is the starting point in the valuation process. This cost is then depreciated at an annual rate to determine the depreciated value. The depreciation schedule adopted for the private car industry measures all forms of depreciation and obsolescence, which are physical, functional and economic. The depreciation rate used for the railroad industry only measures the physical deterioration with the **"Best of the Best"** method measuring the functional and economic obsolescence inherent in the property. Following is the schedule adopted for the private car industry:

<u>Year of Acquisition</u>	<u>Percent Good</u>
Current	100%
1st Preceding	90%
2nd Preceding	80%
3rd Preceding	70%
4th Preceding	60%
5th Preceding	50%

6th Preceding	40%
7th Preceding and Prior	30%

This depreciated cost is considered as the "**market**" value of the railcars. To test the validity of this market indicator, the State Tax Commission also valued selected private car companies' railcars using the method employed for the railroad industry and arrived at approximately the same results as the above depreciation schedule. This market value is then multiplied by the level of assessment of 33 1/3% to arrive at the assessed value of the property.

2. Allocation

For the private car industry, the Tax Commission relies on a time factor for their allocation to Missouri. This method determines the maximum number of days in which the railcars of the private car company could travel within a year by multiplying the total number of cars by 365 days. To arrive at the number of days the railcars spend within Missouri, the total number of miles within the state will be divided by the "**typical**" number of miles per day within the state. The typical number of Missouri miles within a day will be based on "**time studies**" of the private car industry which are periodically reviewed by the Commission.

3.3 IMPORTANT DATES TO REMEMBER FOR ASSESSOR'S OFFICE

April:

- 1st: Company files Schedules 14, 15, and 16 with the Assessor;
- 15th: Company files Schedule 13 with the Clerk; and
- 20th: Assessor's files certified Schedules 14, 15, and 16 with Clerk, Company and STC

May:

- 1st: Company files Schedule 12 with STC;
- 1st: Deadline for aircraft owners notify Assessor of claim of "commercial aircraft" and desire to file with STC;
- 15th: Clerk files certified Form 40 and Schedule 13's with STC; and
- 31st: Value estimation of Rural Electric Cooperatives

June:

- 1st: STC certifies aircraft values; and
- End of month: STC certifies centrally assessed railroad and utility company values

July:

- Company contact report and tax district usage reports are available and distributed to Clerks
- Deadline for appeals from centrally assessed railroad and utility companies

August 15:

- Aircraft appeals due

September 1:

- Deadline for STC to accept aircraft valuation request or correct values

August – September:

- Private Car valuations performed and certified

October:

- Department of Revenue issues bills to private car companies

December:

- Clerks identify changes in taxing jurisdictions

3.4 Forms

- Schedule 4 – Mileage of Line located in each county
- Schedule 13 – County apportionment – number of miles in each taxing jurisdiction
- Schedule 14 – Local assessments
- Schedule 15 – Locally assessed real estate
- Schedule 17 – Distributable Real Property
- Forms 12/20/20A/30/50 – Contact information for companies
- Form 40 – County certification of locally assessed values and county apportionment of state assessed companies

Centrally Assessed Railroad and Utility Company Forms to Assessor:

Schedule 14 Local Assessment, Schedule 15 Real Estate Information, Schedule 16 Motor Vehicle Information are due from the Company to the Assessor's Office by **April 1**. Railroad and utility companies should deliver these forms to the assessor's office by this date, completed up to the columns for market value and assessment. Schedule 17 Distributable Real Property Owned in Fee, when applicable, may be requested from the railroad and utility company.

Local Assessment Forms Due to the County Clerk, Company and State Tax Commission:

The assessor is required to certify the true market value and assessment of all locally assessed railroad and utility property of centrally assessed companies. The certification is completed by signing the Schedule 14 and delivering Schedule 14, Schedule 15, Schedule 16, and Schedule 17 to the county clerk, the railroad or utility company and Original Assessment Section of the State Tax Commission by **April 20**.

Aircraft Assessment:

Aircraft owners of commercial aircraft (aircraft fully equipped for flight and of more than 3,000 pounds maximum certified gross take-off weight) shall notify the assessor's office of their claim of commercial aircraft to be state assessed. This information shall be provided to the State Tax Commission by **May 1**.